

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

SOUTH HAVEN HOUSING COMMISSION

Financial Statements

June 30, 2007

Audited by

JOHN C. DIPIERO, P.C.

Certified Public Accountant

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John C. DiPiero, P.C.

Certified Public Accountant

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Board of Commissioners
South Haven Housing Commission
60 S. Clay Street
South Haven, Michigan 49036

Independent Auditor's Report

I have audited the Financial Statements of the South Haven Housing Commission, Business Type Activities as of and for the year ended June 30, 2007. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Haven Housing Commission as of June 30, 2007, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Financial Data Schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, if fairly stated in all material respects in relation to the financial statements taken as whole.

The Management's Discussion and Analysis and the required supplemental information are not a required part of the basic financial statements but is supplemental information required by the Governmental Auditing Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 12, 2007 on my consideration of the South Haven Housing Commission's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

Certified Public Accountant

October 12, 2007

Management's Discussion and Analysis (MD&A)
June 30, 2007

This section of the South Haven Housing Commission, Michigan's (Commission) annual financial report presents our management's discussion and analysis of the Authority's financial performance during the fiscal year ended on June 30, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Please read and consider the information presented in conjunction with the financial statements as a whole.

For accounting purposes, the Housing Commission is classified as an enterprise fund. Enterprise funds account for activities similar to those found in the private business sector, where the determination of net income is necessary or useful to sound financial administration. Enterprise funds are reported using the full accrual method of accounting in which all assets and all liabilities associated with the operation of these funds are included on the balance sheet. The focus of enterprise funds is on income measurement, which, together with the maintenance of equity, is an important financial indication.

FINANCIAL HIGHLIGHTS

- The term "net assets" refers to the difference between assets and liabilities. The Commission's total net assets as of June 30, 2007 were \$3,512,118. The net assets decreased by \$126,198, a decrease of 3.5% from the prior year.
- Revenues and contributions for the Commission were \$740,784 for the year ended June 30, 2007. This was a decrease of \$2,405 or 0.3% from the prior year.
- Expenses for the Commission were \$866,982 for the year ended June 30, 2007. This was a decrease of \$39,110 or 4.3% from the prior year.
- Rental revenue for the Commission was \$348,252 for the year ended June 30, 2007, an increase of \$33,457 or 10.6% over the prior year. HUD operating grants for the Commission was \$183,795 for the year ended June 30, 2007, an increase of \$9,229 or 5.3% over the prior year. Capital contributions were \$123,350 for the year ended June 30, 2007, an increase of \$35,452 or 40.3% over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes this *Management Discussion and Analysis* report, the *Basic Financial Statements* and the *Notes to the Financial Statements*. This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. The Authority's financial statements are presented as fund level financial statements because the Authority only has proprietary funds.

Management's Discussion and Analysis (MD&A) - Continued

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Required Financial Statements

The financial statements of the Housing Commission report information of the Commission using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all the Commission's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and obligations of the Commission's creditors (liabilities). It also provides the basis for evaluating the capital structure of the Commission and assessing the liquidity and financial flexibility of the Commission.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. This statement measures the success of the Commission's operations over the past year and can be used to determine whether the Commission has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements and provide more detailed data.

Supplemental Information

This report also contains the Financial Data Schedule (FDS) as referenced in the section of *Supplemental Information*. HUD has established *Uniform Financial Reporting Standards* that require Housing Commission's to submit financial information electronically to HUD using the FDS format. This financial information was electronically transmitted to the Real Estate Assessment Center (REAC) for the year ended June 30, 2007 and is required to be included in the audit reporting package.

FINANCIAL ANALYSIS

Net assets may serve, over time, as a useful indicator of a government's financial position. As stated in the table on the following page, assets exceeded liabilities by \$3,512,118 at the close of the year ended June 30, 2007 down from \$3,638,316 in fiscal year 2006. The decrease in net assets of \$126,198 was due to the reasons noted below.

- Current and other assets include cash, investments, receivables, and prepaid expenses. Of the \$53,029 increase in this category, cash and investments increased \$42,288, receivables increased \$8,665, and prepaid expenses increased \$2,076.
- Capital assets decreased \$173,021 because current year depreciation exceeded capital asset additions. Change in capital assets is explained in section titled "Capital Asset" of this analysis.

Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

- Current liabilities increased \$7,384 mainly due to increases in current portion of accrued liability for unpaid vacation and sick leave, accrued payments in lieu of taxes and tenant security deposits payable.
- Noncurrent liabilities decreased \$1,178 due to a decrease in noncurrent portion of accrued liability for unpaid vacation and sick leave.

The unrestricted net assets were \$470,751 as of June 30, 2007. This amount may be used to meet the Commission's ongoing obligations. The Authority has sufficient funds to meet requirements for cash outlays for ten months. The Commission did not have any net assets classified as restricted that are subject to external restrictions on how they may be used. At the end of the current fiscal year, the Commission is able to report positive balances in all categories of net assets. The same situation held true for the prior fiscal year.

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The largest portion of the Commission's net assets reflects its investment in capital assets (e.g. land, buildings and equipment) less accumulated depreciation. The Authority uses these capital assets to provide service and consequently these assets are not available to liquidate liabilities or other spending.

The 2004 approved capital grant (501-04) totals \$192,293 and was 100.0% as of June 30, 2007. The following is a summary of individual grant line items, budget amount, percent expended as of 6/30/07, and development account:

<u>Line No.</u>	<u>Amount</u>	<u>Percent</u>	<u>Development Account</u>
1406	\$ 14,500	100.0%	Operations
1410	\$ 24,000	100.0%	Administration
1450	\$ 45,079	100.0%	Site Improvements
1460	\$ 108,714	100.0%	Dwelling Structures

Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

The 2005 approved capital grant (501-05) totals \$184,747 and was 52.3% expended as of June 30, 2007. The following is a summary of individual grant line items, budget amount, percent expended as of 6/30/07, and development account:

<u>Line No.</u>	<u>Amount</u>	<u>Percent</u>	<u>Development Account</u>
1406	\$ 14,500	100.0%	Operations
1410	\$ 24,000	100.0%	Administration
1430	\$ 218	100.0%	Fees & Costs
1450	\$ 81,429	63.7%	Site Improvements
1460	\$ 49,600	3.7%	Dwelling Structures
1475	\$ 15,000	28.0%	Non-Dwelling Equipment

The 2006 approved capital grant (501-06) totals \$173,126 and was 35.5% expended as of June 30, 2007. The following is a summary of individual grant line items, budget amount, percent expended as of 6/30/07, and development account:

<u>Line No.</u>	<u>Amount</u>	<u>Percent</u>	<u>Development Account</u>
1406	\$ 19,500	100.0%	Operations
1410	\$ 24,000	90.0%	Administration
1440	\$ 20,000	0.0%	Site Acquisition
1450	\$ 18,696	90.4%	Site Improvements
1460	\$ 71,625	4.8%	Dwelling Structures
1470	\$ 1,000	0.0%	Non-Dwelling Structures
1475	\$ 18,305	0.0%	Non-Dwelling Equipment

While the Statement of Net Assets shows the change in financial position of net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

As can be seen in the table on the following page, total revenues and contributions decreased \$2,405 due to the reasons noted below.

- Rental revenue increased \$33,457 due to an increase in the average rent charge per unit under lease of \$25.69 or 12.1%.
- Of the \$9,229 increase in HUD operating grants, public housing operating subsidy increased \$3,780 and capital fund grants used for operating expenditures increased \$5,449.
- Interest income increased \$6,353 or 35.7% due to higher interest rates on certificates of deposit and an increase in cash and investments.
- Capital contributions increased \$35,452 from FY 2006. The Authority is allocated capital fund grants each year as determined by HUD and the amount remains relatively consistent from year to year. HUD capital grant revenues during the year will depend upon timing of projects as outlined in the HUD approved capital grant budget.
- Other income increased \$9,520 or 18.4% over FY 2006.
- Gain on sale of fixed assets was higher in FY 2006 because the Commission sold three homes.

Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS JUNE 30,

	2007	2006	Dollar Change	Percent Change
Revenues and Contributions				
Operating - non-operating - capital contributions:				
Rental revenue	\$ 348,252	\$ 314,795	\$ 33,457	10.6%
HUD operating grants	183,795	174,566	9,229	5.3%
Interest income	24,145	17,792	6,353	35.7%
Capital contributions	123,350	87,898	35,452	40.3%
Other income	61,242	51,722	9,520	18.4%
Gain on sale of fixed assets	-	96,416	(96,416)	-100.0%
Total Revenues & Contributions	<u>740,784</u>	<u>743,189</u>	<u>(2,405)</u>	-0.3%
Expenses				
Administrative	232,775	239,218	(6,443)	-2.7%
Tenant services	3,472	3,469	3	0.1%
Utility expenses	66,297	67,031	(734)	-1.1%
Ordinary maintenance	212,017	230,256	(18,239)	-7.9%
General expenses	52,701	65,229	(12,528)	-19.2%
Depreciation	299,720	300,889	(1,169)	-0.4%
Total Expenses	<u>866,982</u>	<u>906,092</u>	<u>(39,110)</u>	-4.3%
Change in net assets	(126,198)	(162,903)	36,705	
Beginning net assets	3,638,316	3,800,436	(162,120)	
Prior period adjustments	-	783	(783)	
Beginning net assets, adjusted	<u>3,638,316</u>	<u>3,801,219</u>	<u>(162,903)</u>	
Ending net assets	<u>\$ 3,512,118</u>	<u>\$ 3,638,316</u>	<u>\$ (126,198)</u>	

Tot

al expenses decreased \$39,110 due to the reasons noted below.

- Administrative expenses decreased \$6,443 primarily due to a decrease in administrative wages and benefits of \$4,779 or 2.3%.
- Tenant services increased \$3 or 0.1% over FY 2006.
- Of the \$734 decrease in utilities, water decreased \$544 or 4.9%, electricity increased \$5,274 or 20.7%, and gas decreased \$5,464 or 18.0%.
- Ordinary maintenance decreased \$18,239 or 7.9% mainly due to a decrease in maintenance labor and benefits of \$12,567 or 8.2%. Maintenance materials and contract costs decreased \$3,363 or 12.1% and \$2,309 or 4.7%, respectively.

Management's Discussion and Analysis (MD&A) - Continued

FINANCIAL ANALYSIS (CONTINUED)

- General expenses decreased \$12,528 or 19.2% primarily due to a decrease in insurance of \$13,435 or 39.1%.
- The Commission had a \$1,169 or 0.4% decrease in Depreciation which is the write-off of capital assets over their estimated useful life.

The Authority currently owns and manages 123 Public Housing units. The occupancy level for this project was 99.9% in FY 2007, down slightly from 100.0% in FY 2006. Elderly Public Housing has 2 two-bedroom, 18 efficiency one-bedroom, and 60 one-bedroom units. Family Housing has 2 two-bedroom houses and 42 three-bedroom family homes. The Authority rents one of the one-bedroom elderly units to a Senior Services Agency.

CAPITAL ASSET

The South Haven Housing Commission, Michigan's investment in capital assets, net of related debt, as of June 30, 2007 amounts to \$3,041,367 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, equipment and construction in progress.

Capital Assets - The total decrease in the Commission's capital assets for the current fiscal year was 5.4% in terms of net book value. Actual expenditures to purchase or construct capital assets from revenues and capital contributions were \$126,699 for the year. The Commission has various contract commitments with contractors for the implementation of the HUD capital grants as outlined by the HUD approved Capital Grant Budget. Depreciation charges for the year totaled \$299,720. The Authority has \$199,795 available in capital funds to draw down and spend in the future. Additional information on the Authority's capital assets can be found in the notes to the financial statements of this report.

	Beginning	Additions	Retirements	Depreciation	Ending
Capital assets	\$3,214,388	\$126,699	\$0	\$(299,720)	\$3,041,367

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Commissioners and Management of the Housing Authority considered many factors when approving the FY 2008 Public Housing budget. The user charges are based on a tenant's income as established by HUD guidelines and are not adjustable. Operating subsidy is based on occupied units and approved vacancies, utility consumption and rates, approved add-ons, formula income, and transition funding. The amount of funding is also established and approved by HUD. Formula income is based on rental income from the Authority's fiscal year ended June 30, 2004 and will not be adjusted until 2009. Operating expenses are expected to increase by the economy's inflation rate.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to Chuck Fuller, Executive Director, South Haven Housing Commission, 220 Broadway, South Haven, Michigan 49090.

SOUTH HAVEN HOUSING COMMISSION
Statement of Net Assets
June 30, 2007

ASSETS

C-3058

CURRENT ASSETS

Cash	\$	121,412	
Accounts Receivable		1,648	
Accounts Receivable- Other		45,216	
Investments		385,788	
Prepaid Expenses		<u>18,237</u>	
Total Current Assets	\$		572,301

NON CURRENT ASSETS

Land	\$	214,954	
Buildings		6,266,586	
Furniture, Equipment- Administrative		84,948	
Construction in Progress		74,074	
Leasehold Improvements		596,462	
Accumulated Depreciation		<u>(4,195,657)</u>	
Total Non Current Assets			<u>3,041,367</u>

TOTAL ASSETS \$ 3,613,668

SOUTH HAVEN HOUSING COMMISSION
Statements of Net Assets
June 30, 2007

LIABILITIES

C-3058

CURRENT LIABILITIES

Accounts Payable	\$	7,618	
Accrued Payroll & Payroll Taxes		5,272	
Accrued Compensated Absences		11,520	
Accounts Payable-Other Governments		28,792	
Tenants Security Deposit		36,067	
Deferred Revenue		<u>4,011</u>	
<u>Total Current Liabilities</u>	\$		93,280

NON CURRENT LIABILITIES

Compensated Absences		<u>8,270</u>	
<u>Total Liabilities</u>	\$		101,550

NET ASSETS

Investment in Fixed Assets, net of related Debt	\$	3,041,367	
Unrestricted Net Assets		<u>470,751</u>	
<u>Total Net Assets</u>			<u>3,512,118</u>

<u>TOTAL LIABILITIES & NET ASSETS</u>	\$	<u>3,613,668</u>
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The Accompanying Notes are an Integral part of the Financial Statements

SOUTH HAVEN HOUSING COMMISSION
Statement of Revenue, Expenses, and Changes in Net Assets
For the year ended June 30, 2007

OPERATING REVENUE

Tenant Rental Revenue	\$ 348,252	
Tenant Revenue-Other	32,365	
HUD Grants	183,795	
Interest Income	24,145	
Other Income	<u>28,877</u>	
<u>Total Operating Revenue</u>		\$ 617,434

OPERATING EXPENSES

Administrative	\$ 232,775	
Tenant Services	3,472	
Utility Expenses	66,297	
Ordinary Maintenance	212,017	
General Expenses	52,701	
Depreciation Expense	<u>299,720</u>	
<u>Total Operating Expenses</u>		<u>866,982</u>
<u>Operating Income (Loss)</u>		\$ (249,548)

CAPITAL CONTRIBUTIONS

		<u>123,350</u>
<u>Changes in Net Assets</u>		\$ (126,198)
Total Net Assets- Beginning		<u>3,638,316</u>
Total Net Assets- Ending		\$ <u>3,512,118</u>

The Accompanying Notes are an Integral part of the Financial Statements

SOUTH HAVEN HOUSING COMMISSION
Combined Statement of Cash Flows
For the Year Ended June 30, 2007

Business Type Activities

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 380,009
Payments to Suppliers	(343,950)
Payments to Employees	(263,031)
HUD Grants	307,145
Other Receipts (Payments)	<u>53,022</u>
Net Cash Provided (Used) by Operating Activities	\$ <u>133,195</u>

CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	\$ <u>(126,699)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 6,496
Balance- Beginning of Year	<u>114,916</u>
Balance- End of Year	\$ <u>121,412</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET
CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Net Profit or (Loss)	\$ (126,198)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation	299,720
Changes in Assets (Increase) Decrease:	
Receivables (Gross)	(8,665)
Prepaid Expenses	(2,076)
Changes in Liabilities Increase (Decrease):	
Accounts Payable	(24,106)
Accrued Payroll	5,272
Compensated Absences	894
Accounts Payable- Other Governments	(13,869)
Security Deposits	2,101
Deferred Revenue	<u>122</u>
Net Cash Provided by Operating Activities	\$ <u>133,195</u>

The Accompanying Notes are an Integral part of the Financial Statements

SOUTH HAVEN HOUSING COMMISSION
Notes to Financial Statements
June 30, 2007

NOTE 1: Summary of Significant Accounting Policies

Reporting Entity-

South Haven Housing Commission, South Haven, Michigan, (Commission) was created by an ordinance of South Haven, Michigan. The Commission signed an Annual Contributions Contract (ACC) with the U.S. Department of Housing and Urban Development (HUD). The ACC requires the Commission to provide safe, sanitary and decent housing for qualifying senior and low income families.

The Commission consists of the following:

MI 82-001	Low rent program	124 units
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In determining the reporting entity, the manifestations of oversight, as defined by the Governmental Accounting Standards Board (GASB), Cod. sec 2100, were considered. The criteria include the following:

The nucleus of the financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) Statement No. 14 is the "primary government". A fundamental characteristic of a primary government is that it is a fiscally independent entity. In evaluating how to define the financial reporting entity, management has considered all potential component units. A component unit is legally separate entity for which the primary government is financially accountable. The criterion of financial accountability are the ability of the primary government to impose its will upon the potential component unit. Based on the above, a component unit does exist which is reported.

These criteria were considered in determining the reporting entity.

Basis of Presentation-

The accounts of the Commission are organized by the Catalog of Federal Domestic Awards (CFDA) numbers, in the Financial Data Schedule; each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenditures, or expenses, as appropriate. Commission resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Notes to Financial Statements- continued

Proprietary Funds

Enterprise Funds- Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, management control, accountability, or other purposes.

Basis of Accounting-

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary Funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Prior to October 1, 1998, the Commission followed a basis of accounting consistent with the cognizant agency, the U. S. Department of Housing and Urban Development, HUD. Those practices differed from Generally Accepted Accounting Principals (GAAP); however, for all fiscal years beginning on or after October 1, 1998, HUD has required adherence to GAAP. Therefore, the current and future financial presentations will follow GAAP and the Financial Accounting Standards Board (FASB) pronouncements issued subsequent to November 30, 1989, unless they conflict with the Governmental Accounting Standards Board (GASB) pronouncements.

Budgetary data-

Formal budgetary integration is employed as a management control device during the year in proprietary type funds. Budgets for funds are adopted on a basis consistent with generally accepted accounting principles (GAAP) for that fund type. The Commission adopts a budget annually, and amends the budgets as it feels necessary in order to maintain financial integrity.

Assets, Liabilities, and Net Assets-

Deposits & Investments

Deposits are stated at cost; the carrying amount of deposits is separately displayed on the balance sheet as cash and cash equivalents; investments are stated at cost which approximates market.

Notes to Financial Statements- continued

Cash Equivalents

Cash Equivalents represent investments purchased with a three month maturity or less; investments meeting this criteria are reclassified for financial statement purposes as cash.

Due to/From Other Funds

During the course of operations, numerous transactions occur between individual funds for goods or services; these receivables and payables are classified as "due from" or "due to" other funds on the Balance Sheet.

Fixed Assets

The accounting and reporting treatment applied to the fixed assets are determined by its measurement focus. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheets. Their reported fund equity (net total assets) is reported as Invested in Capital Assets, Net of Related Debt.

Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations; depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	3-10 years

Compensated Absences

Vacation and sick leave have been accrued as a liability. The amount accrued was based on the probability that the Commission will compensate the employees for the benefits through cash payments as a condition of the employees' termination or retirement. Sick leave is accrued based on retirement only, whereas, vacation is payable for both termination or retirement.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Notes to Financial Statements- continued

Note 2: Cash and Investments.

The composition of cash and investments are as follows:

Cash:

General Fund Checking Accounts	\$ 95,205
Petty Cash	100
Saving Account	<u>26,107</u>
Financial Statement Total	\$ <u>121,412</u>

Investments:

Certificates of Deposit	\$ 377,625
savings Accounts	<u>8,163</u>
Financial Statement Total	\$ <u>385,788</u>

Generally the Commission classifies cash and investments with the following risk assumptions:

- 1) Insured or registered in the Commission's name.
- 2) Uninsured or unregistered, held by a broker in the Commission's name.
- 3) Uninsured or unregistered, held by a broker not in the Commission's name.

	<u>Categories</u>				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Carrying</u>	<u>Market</u>
Cash:				<u>Amount</u>	<u>Value</u>
Checking A/C's	\$ 95,205	\$	\$	\$ 95,205	\$ 95,205
Petty Cash	100			100	100
Savings Accounts	<u>26,107</u>	<u></u>	<u></u>	<u>26,107</u>	<u>26,107</u>
Total Cash	\$ <u>121,412</u>	\$ <u></u>	\$ <u></u>	\$ <u>121,412</u>	\$ <u>121,412</u>
Investments:					
Certificate's	\$ 377,625	\$	\$	\$ 377,625	\$ 377,625
Savings Accounts	<u>8,163</u>	<u></u>	<u></u>	<u>8,163</u>	<u>8,163</u>
Total Cash	\$ <u>385,788</u>	\$ <u></u>	\$ <u></u>	\$ <u>385,788</u>	\$ <u>385,788</u>

All investments are covered by either FDIC or bank collateralization commitment letters. In addition to the above analysis, the Commission has adopted an investment policy as required by P.A. 196 of 1997; Michigan Compiled Law 129.95.

Notes to Financial Statements- continued

Note 3: Fixed Asset Analysis.

The following represents the changes in fixed assets for the year:

	<u>Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>End of Year</u>
Land	\$ 214,954	\$	\$	\$ 214,954
Buildings	6,153,230	113,356		6,266,586
Furniture & Equipment-Admin	80,752	4,196		84,948
Construction in Progress	110,006		35,932	74,074
Leasehold Improvements	<u>551,383</u>	<u>45,079</u>		<u>596,462</u>
	\$ 7,110,325	\$ 162,631	\$ 35,932	\$ 7,237,024
Less Accumulated Depreciation	<u>3,895,937</u>	<u>299,720</u>		<u>4,195,657</u>
	<u>\$ 3,214,388</u>	<u>\$ (137,089)</u>	<u>\$ 35,932</u>	<u>\$ 3,041,367</u>

Note 4: Pension Plan

The South Haven Housing Commission contributes to the Municipal Employees Retirement System (MERS), a multi-employer defined benefit pension plan administered by the State of Michigan, through the City of South Haven. Details concerning the plan are available in the annual report of MERS. This plan covers all regular, full-time employees of the Housing Commission. Employees do contribute 5% of gross pay to this plan. Other statistical and historical data required by GASB Statement No. 5 is not included herein because data for the Housing Commission is not available from MERS.

Note 5: Reclassifications.

Certain prior years' balances have been reclassified to conform to the current year's presentation.

Note 6: Combining Financial Data Schedules.

The totals in the combining Balance Sheet and combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

Notes to Financial Statements- continued

Note 7: Risk Management

The Commission is exposed to various risks of loss related to property loss, torts, error and omissions and employee injuries. The Commission purchases commercial insurance to cover the risks of these losses. The Commission had the following insurance in effect during the year:

<u>Types of Policies</u>	<u>Coverage's</u>
Property	\$ 10,416,890
General Liability	1,000,000
Automobile Liability	1,000,000
Dishonesty Bond	1,000,000
Worker's Compensation and other riders: minimum coverage's required by the State of Michigan	

Note 8: Contingent Notes Receivable

The Commission has sold dwelling units to homebuyers; the sales are at less than the appraised value. The difference between the appraised value and the sales price has been secured by a second mortgage offered by the Commission to the homebuyers. The second mortgage will become due and payable if the homebuyer fails to abide by any of the following:

- Defaults on the first mortgage resulting in a foreclosure
- Sells the house within the first five years after the purchase
- Transfers ownership of the house within the first five years after the purchase
- The house is destroyed and considered a total loss by the insurance company

If any of the above occur after the first five years, the following declining balance will be enforced:

<u>Year of Occurrence</u>	<u>Applicable Percentage of Second Mortgage Payable</u>
6	50%
7	40
8	30
9	20
10	10
11	0

The total second mortgages outstanding at June 30, 2007 was \$ 145,780.

South Haven Housing Commission

30-Jun-07

MI-182

	Account Description	Low Rent 14.850	Capital Projects Funds 14.872	TOTAL
Line Item #				
	ASSETS:			
	CURRENT ASSETS:			
	Cash:			
111	Cash - unrestricted	85,345		85,345
112	Cash - restricted - modernization and development		-	-
113	Cash - other restricted			-
114	Cash - tenant security deposits	36,067	-	36,067
100	Total cash	121,412	-	121,412
	Accounts and notes receivables:			
121	Accounts receivable - PHA projects			-
122	Accounts receivable - HUD other projects	2	41,089	41,091
124	Accounts receivable - other government			-
125	Accounts receivable - miscellaneous	-	-	-
126	Accounts receivable- tenants - dwelling rents	1,648		1,648
126.1	Allowance for doubtful accounts - dwelling rents	-		-
126.2	Allowance for doubtful accounts - other	-		-
127	Notes and mortgages receivable- current			-
128	Fraud recovery			-
128.1	Allowance for doubtful accounts - fraud			-
129	Accrued interest receivable	4,125		4,125
120	Total receivables, net of allowances for doubtful accounts	5,775	41,089	46,864
	Current investments			-
131	Investments - unrestricted	385,788		385,788
132	Investments - restricted			-
142	Prepaid expenses and other assets	18,237	-	18,237
143	Inventories	-	-	-
143.1	Allowance for obsolete inventories	-	-	-
144	Interprogram - due from	40,630	-	40,630
146	Amounts to be provided			-
150	TOTAL CURRENT ASSETS	571,842	41,089	612,931
	NONCURRENT ASSETS:			
	Fixed assets:			
161	Land	214,954	-	214,954
162	Buildings	6,156,580	110,006	6,266,586
163	Furniture, equipment & machinery - dwellings	-	-	-
164	Furniture, equipment & machinery - administration	80,751	4,197	84,948
165	Leasehold improvements	551,383	45,079	596,462
166	Accumulated depreciation	(4,188,729)	(6,928)	(4,195,657)
167	Construction in Progress		74,074	74,074
160	Total fixed assets, net of accumulated depreciation	2,814,939	226,428	3,041,367
171	Notes and mortgages receivable - non-current			-
172	Notes and mortgages receivable-non-current-past due			-
174	Other assets			-
175	Undistributed debits			-
176	Investment in joint ventures			-
180	TOTAL NONCURRENT ASSETS	2,814,939	226,428	3,041,367
190	TOTAL ASSETS	3,386,781	267,517	3,654,298

	LIABILITIES AND EQUITY:			
	LIABILITIES:			
	CURRENT LIABILITIES			
311	Bank overdraft			-
312	Accounts payable ≤ 90 days	7,618	-	7,618
313	Accounts payable > 90 days past due		-	-
321	Accrued wage/payroll taxes payable	4,813	459	5,272
322	Accrued compensated absences	11,520	-	11,520
324	Accrued contingency liability			-
325	Accrued interest payable			-
331	Accounts payable - HUD PHA programs			-
332	Accounts Payable - PHA Projects			
333	Accounts payable - other government	28,792	-	28,792
341	Tenant security deposits	36,067	-	36,067
342	Deferred revenues	4,011	-	4,011
343	Current portion of Long-Term debt - capital projects		-	-
344	Current portion of Long-Term debt - operating borrowings			-
345	Other current liabilities	-		-
346	Accrued liabilities - other	-		-
347	Inter-program - due to	-	40,630	40,630
310	TOTAL CURRENT LIABILITIES	92,821	41,089	133,910
	NONCURRENT LIABILITIES:			
351	Long-term debt, net of current- capital projects			-
352	Long-term debt, net of current- operating borrowings			-
353	Noncurrent liabilities- other	-		-
354	Accrued Compensated Absences- Non Current	8,270		8,270
350	TOTAL NONCURRENT LIABILITIES	8,270	-	8,270
300	TOTAL LIABILITIES	101,091	41,089	142,180
	EQUITY:			
501	Investment in general fixed assets			-
	Contributed Capital:			
502	Project notes (HUD)			-
503	Long-term debt - HUD guaranteed	-	-	-
504	Net HUD PHA contributions	-		-
505	Other HUD contributions			-
507	Other contributions	-		-
508	Total contributed capital	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	2,814,939	226,428	3,041,367
	Reserved fund balance:			
509	Reserved for operating activities			-
510	Reserved for capital activities	-		-
511	Total reserved fund balance	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-
512.1	Unrestricted Net Assets	470,751		470,751
513	TOTAL EQUITY	3,285,690	226,428	3,512,118
600	TOTAL LIABILITIES AND EQUITY	3,386,781	267,517	3,654,298

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South Haven Housing Commission

30-Jun-07

MI-182

	Account Description	Low Rent 14.850	Capital Projects Funds 14.872	TOTAL
Line Item #				
	ASSETS:			
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	Cash:			
111	Cash - unrestricted	85,345		85,345
112	Cash - restricted - modernization and development		-	-
113	Cash - other restricted			-
114	Cash - tenant security deposits	36,067	-	36,067
100	Total cash	121,412	-	121,412
	Accounts and notes receivables:			
121	Accounts receivable - PHA projects			-
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124	Accounts receivable - other government			-
125	Accounts receivable - miscellaneous	-	-	-
126	Accounts receivable- tenants - dwelling rents	1,648		1,648
126.1	Allowance for doubtful accounts - dwelling rents	-		-
126.2	Allowance for doubtful accounts - other	-		-
127	Notes and mortgages receivable- current			-
128	Fraud recovery			-
128.1	Allowance for doubtful accounts - fraud			-
129	Accrued interest receivable	4,125		4,125
120	Total receivables, net of allowances for doubtful accounts	5,775	41,089	46,864
	Current investments			-
131	Investments - unrestricted	385,788		385,788
132	Investments - restricted			-
142	Prepaid expenses and other assets	18,237	-	18,237
143	Inventories	-	-	-
143.1	Allowance for obsolete inventories	-	-	-
144	Interprogram - due from	40,630	-	40,630
146	Amounts to be provided			-
150	TOTAL CURRENT ASSETS	571,842	41,089	612,931
	NONCURRENT ASSETS:			
	Fixed assets:			
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162	Buildings	6,156,580	110,006	6,266,586
163	Furniture, equipment & machinery - dwellings	-	-	-
164	Furniture, equipment & machinery - administration	80,751	4,197	84,948
165	Leasehold improvements	551,383	45,079	596,462
166	Accumulated depreciation	(4,188,729)	(6,928)	(4,195,657)
167	Construction in Progress		74,074	74,074
160	Total fixed assets, net of accumulated depreciation	2,814,939	226,428	3,041,367
171	Notes and mortgages receivable - non-current			-
172	Notes and mortgages receivable-non-current-past due			-
174	Other assets			-
175	Undistributed debits			-
176	Investment in joint ventures			-
180	TOTAL NONCURRENT ASSETS	2,814,939	226,428	3,041,367
190	TOTAL ASSETS	3,386,781	267,517	3,654,298

	LIABILITIES AND EQUITY:			
	LIABILITIES:			
	CURRENT LIABILITIES			
311	Bank overdraft			-
312	Accounts payable ≤ 90 days	7,618	-	7,618
313	Accounts payable > 90 days past due		-	-
321	Accrued wage/payroll taxes payable	4,813	459	5,272
322	Accrued compensated absences	11,520	-	11,520
324	Accrued contingency liability			-
325	Accrued interest payable			-
331	Accounts payable - HUD PHA programs			-
332	Accounts Payable - PHA Projects			
333	Accounts payable - other government	28,792	-	28,792
341	Tenant security deposits	36,067	-	36,067
342	Deferred revenues	4,011	-	4,011
343	Current portion of Long-Term debt - capital projects		-	-
344	Current portion of Long-Term debt - operating borrowings			-
345	Other current liabilities	-		-
346	Accrued liabilities - other	-		-
347	Inter-program - due to	-	40,630	40,630
310	TOTAL CURRENT LIABILITIES	92,821	41,089	133,910
	NONCURRENT LIABILITIES:			
351	Long-term debt, net of current- capital projects			-
352	Long-term debt, net of current- operating borrowings			-
353	Noncurrent liabilities- other	-		-
354	Accrued Compensated Absences- Non Current	8,270		8,270
350	TOTAL NONCURRENT LIABILITIES	8,270	-	8,270
300	TOTAL LIABILITIES	101,091	41,089	142,180
	EQUITY:			
501	Investment in general fixed assets			-
	Contributed Capital:			
502	Project notes (HUD)			-
503	Long-term debt - HUD guaranteed	-	-	-
504	Net HUD PHA contributions	-		-
505	Other HUD contributions			-
507	Other contributions	-		-
508	Total contributed capital	-	-	-
508.1	Invested in Capital Assets, Net of Related Debt	2,814,939	226,428	3,041,367
	Reserved fund balance:			
509	Reserved for operating activities			-
510	Reserved for capital activities	-		-
511	Total reserved fund balance	-	-	-
512	Undesignated fund balance/retained earnings	-	-	-
512.1	Unrestricted Net Assets	470,751		470,751
513	TOTAL EQUITY	3,285,690	226,428	3,512,118
600	TOTAL LIABILITIES AND EQUITY	3,386,781	267,517	3,654,298

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SOUTH HAVEN HOUSING COMMISSION
Status of Prior Audit Findings
June 30, 2007

The prior audit of the South Haven Housing Commission for the period ended June 30, 2006, did not contained any audit findings.

SOUTH HAVEN HOUSING COMMISSION
Report on Compliance and on Internal Control over
Financial Reporting Based on an Audit of Financial
Statements Performed in Accordance with
Government Auditing Standards
June 30, 2007

I have audited the financial statements of the South Haven Housing Commission of South Haven, Michigan, as of and for the year ended June 30, 2007, and have issued my report thereon dated October 12, 2007. I conducted my audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weakness.

This report is intended for the information of management, the Board of Commissioners, and federal and state funding agencies, and is not intended to be and should not be used by anyone other than those specified parties.

Certified Public Accountant
Hemlock, Michigan
October 12, 2007

SOUTH HAVEN HOUSING COMMISSION
Report on Compliance Applicable to
Non Major HUD Program
June 30, 2007

I have audited the financial statements of South Haven Housing Commission, South Haven Michigan, as of and for the year ended June 30, 2007, and have issued my report dated October 12, 2007.

In connection with my audit and with my consideration of the Commission's internal control used to administer HUD grants, I selected certain transactions applicable to the nonmajor HUD programs for the year ended June 30, 2007; I performed auditing procedures to test compliance with the requirements governing the Commission's grants. My procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the Commission's compliance with those requirements. Accordingly, I do not express such an opinion.

Material instances of noncompliance consist of failures to follow the specific requirements referred to above that caused me to conclude that the misstatements resulting from those failures are material to the Commission's grants. I did not discover material instances or control deficiencies that require disclosure.

This report is intended solely for the information of management and the U. S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountant
Hemlock, Michigan
October 12, 2007

SOUTH HAVEN HOUSING COMMISSION
Schedule of Findings and Questioned Cost
June 30, 2007

Summary of Auditor's Results:

Programs:

	<u>Major Program</u>	<u>Non Major Program</u>
Low income Public Housing		X
Capital Fund Project		X

Opinions:

General Purpose Financial Statements-

Unqualified

Material weakness(es) noted	_____ Yes	_____ X	_____ No
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Reportable condition(s) noted	_____ Yes	_____ X	_____ No
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Non Compliance material to financial statements noted	_____ Yes	_____ X	_____ No
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Report on compliance for Federal programs-

Unqualified

Material weakness(es) noted	_____ Yes	_____ X	_____ No
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Reportable condition(s) noted	_____ Yes	_____ X	_____ No
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Non Compliance material to financial statements noted	_____ Yes	_____ X	_____ No
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Thresholds:

Dollar limit used to determine type A & B programs- \$ 300,000

<u>Name of Federal Program</u>	<u>Major Program</u>	<u>Questioned Costs</u>	<u>Audit Finding Number</u>
Low Rent Program	No	None	None
Capital Fund Program	No	None	None